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SUBJECT: MCC EURASIA DIRECTOR REID'S MEETINGS WITH
MONOGLIAN LEADERSHIP

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¶1. (SBU) SUMMARY: Millennium Challenge Corporation Eurasia Managing Director Frances Reid met with Mongolia's President, Prime Minister, Speaker, and Vice Foreign Minister, among others, during the course of her June 12-22 visit to Mongolia. During her meetings, she expressed appreciation for the hard work done by Mongolia's MCC National Council and Working Groups, noted her visit was designed to hone and refine Mongolia's five project proposals, and flagged the need for specialized expertise to advance this process including identifying time and cost trade-offs for the GOM's consideration. She told her GOM interlocutors that, given the work remaining, a compact signing was unlikely this calendar year but perhaps possible in early 2007. In separate meetings, the President sought housing solutions to preclude poor ger districts from becoming permanent. The Prime Minister promised "some money" to pay for needed expertise, the Speaker said needed anti-corruption legislation would soon be passed, and the Vice Foreign Minister sought details on compact signing date prospects. Reid told the Ambassador that her visit had made considerable progress in bringing specificity to Mongolia's proposals yet much remained to be done before a compact could be signed. END SUMMARY.

INTRODUCTION AND VISIT BACKGROUND

¶2. (SBU) MCC Eurasia Managing Director Frances Reid, accompanied by MCC Mongolia Director James Hallmark, visited Mongolia June 12-22 to assist Mongolia's MCC National Council in defining and refining its MCC compact proposal projects, as part of MCC's due diligence phase. Over the course of their visit, they met extensively with the MCC National Council (NC) and the NC's project working groups (WKG) as well as relevant Ministry and Government of Mongolia (GOM) officials, including from the Ministries of Finance, Foreign Affairs, Health, Urban Development and Construction, and Education, Culture, and Science as well as the Information and Communications Technology Authority and the Mongolian Railroad Authority. This cable summarizes highlights of her meetings, accompanied by Mongolia Director Hallmark and DCM, with

the President, Prime Minister, Speaker of the State Great Hural (parliament), and Vice Foreign Minister.

REID'S COMMON THEMES: MAKING PROGRESS, NEED TO REFINED AND DEFINE, HIRE EXPERTS, COMPACT MAYBE NEXT YEAR

13. (SBU) In her meetings described below, Reid made essentially the same or similar points, including:

- Acknowledging the many unique challenges Mongolia's complex situation and projects must address;
- Reviewing the purpose of her trip, that being to achieve clarity, definition, and specificity in Mongolia's five project areas (low income community development (formerly known as ger area development, "health, vocational education, an information and communication technology (ICT), and railroads):
- Expressing appreciation for the hard work done by Mongolia's MCC NC and WKGs;
- Flagging the need for specialized expertise (whether Mongolian or expatriate) to advance project definition;
- Emphasizing that the goal was to present clear options for the GOM to make decisions;
- Noting Mongolia's parliament was currently considering legislation directed at the problem of corruption; and,

ULAANBAATA 00000499 002 OF 003

- Highlighting that, given the work remaining requiring special expertise, it appeared unlikely that a compact could be signed this calendar year, but that MCC hoped to do so early in 2007.

PM ENKHBOLD NOTES PUBLIC FRUSTRATED BY DELAYS;
COMMITTS "SOME MONEY" TO OBTAINING NEEDED EXPERTISE

13. (SBU) During her June 14 call on Prime Minister Enkhbold, the PM began by reviewing recent trends in the bilateral relationship, including the November 2005 visit by President Bush. He underscored the importance of Mongolia's MCC proposals as part of Mongolia's continuing economic and political transformation. Enkhbold noted that delays in concluding a compact had led to some frustration as well as lower expectations and confidence. He stated that the GOM had indicated the GOM itself could devote "some money" to developing the projects to achieve a compact.

VFM INTERESTED IN COMPACT SIGNING TIMING

14. (SBU) On June 15, Vice Foreign Minister Tsolmon sought from Reid specifics on how much money would be required to fund needed experts and how much time the experts would require before a compact could be signed. Reid replied that it was too soon to know in both cases as the projects themselves have not yet been narrowed to the point where reasonable estimates could be made that would enable the GOM to make informed decisions which would necessarily need to consider the balance between time and costs. Reid reviewed with the VFM the status and prospects of the five project proposals. The two had an extended exchange concerning the viability of a second, additional rail line in the absence of Russian concurrence and cooperation vis a vis the existing joint Mongolian-Russian rail venture, with the VFM again intimating the GOM may seek to "go it alone" without Russian assent.

SPEAKER: PARLIAMENT WILL PASS NEEDED ANTI-CORRUPTION
LEGISLATION; SLOW MENTAL ADJUSTMENT TO MARKETS

15. (SBU) During her June 15 meeting with State Great Hural (parliament) Speaker Nyambdorj, the Speaker stressed that the SGH would soon pass two pieces of legislation of interest to the USG, those being anti-corruption and anti-money-laundering legislation, prior to the SGH's recess in early July. The Speaker reviewed Mongolia's accomplishments during the past 16 years following the peaceful transition from communism and Soviet domination as well as Mongolia's unfinished tasks, including increasing employment and economic development. While much of Mongolia's economy had transferred from the state to private control, the Speaker asserted, private sector-led growth had yet to be fully embraced or energized. Corruption remains a problem, the Speaker admitted, saying corruption was, in part, an off-shoot of the rapid shift toward capitalism - everyone wants to get wealthy and the opportunities to do so - legally or illegally -- had grown significantly. Nyambdorj acknowledged the importance of vocational education in terms of producing an employable labor force. He also underscored that the GOM and the ruling political parties had not fully adjusted to the consultative process as well as the new, expanded role of the private sector, but it was endeavoring to learn quickly and make the shift in that direction.

PRESIDENT HOPES GER DISTRICTS ONLY A TEMPORARY
PHENOMENON; SEEKS HOUSING SOLUTIONS

16. (SBU) On June 20, President Enkhbayar was also interested in MCC's compact timetable and he listened

ULAANBAATA 00000499 003 OF 003

attentively to Reid's review of the project proposals. He was particularly interested in housing finance and mortgage proposals and stressed that Mongolia's long-term goal was to produce more housing so that ger districts would not become long-term permanent fixtures on UB's horizon. (Note: This dovetails well with his party's unfunded proposal to build 40,000 apartments.) He also hoped for increased job creation, perhaps with greater emphasis on small and medium enterprises as well as micro-finance. Having just returned from the Shanghai Cooperation Organization meeting in Shanghai, where he met with Russian President Putin and Chinese President Hu Jin Tao, Enkhbayar signaled increased Russian rail-sector cooperation was unlikely, emphasizing the need to press ahead with a Mongolian-owned second rail. The President was also interested in prospects for a second compact.

17. (U) MCC Eurasia Managing Director Reid cleared this message.

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